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INSIDE: Women at Work · Electronics · N.Y. Pre-Show

APRIL 1986

Incentive Marketing

INCORPORATING INCENTIVE TRAVEL

Dealer Motivation

Mystery Shoppers

PLUS

FACTS Update

Destination: San Diego

EMPLOYEE MOTIVATION
Women at Work, p. 72

April 1986

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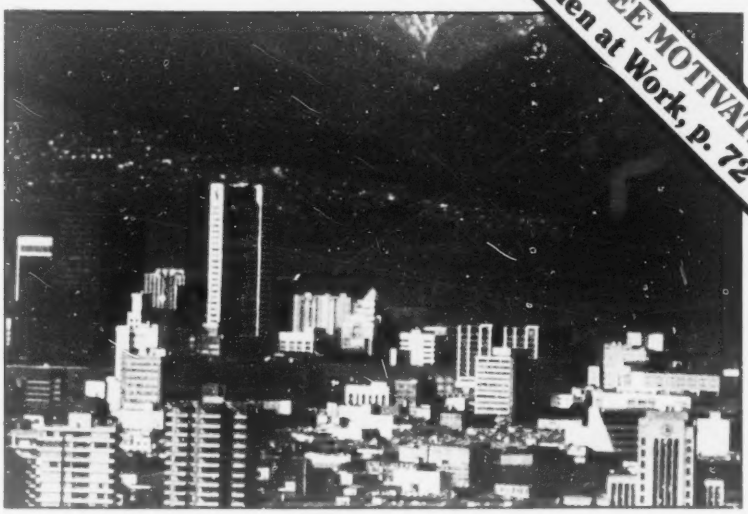

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Sales results of dealer programs are holding up well—at an average 18.4 percent increase, compared with 18.7 percent last year.

FACTS Update

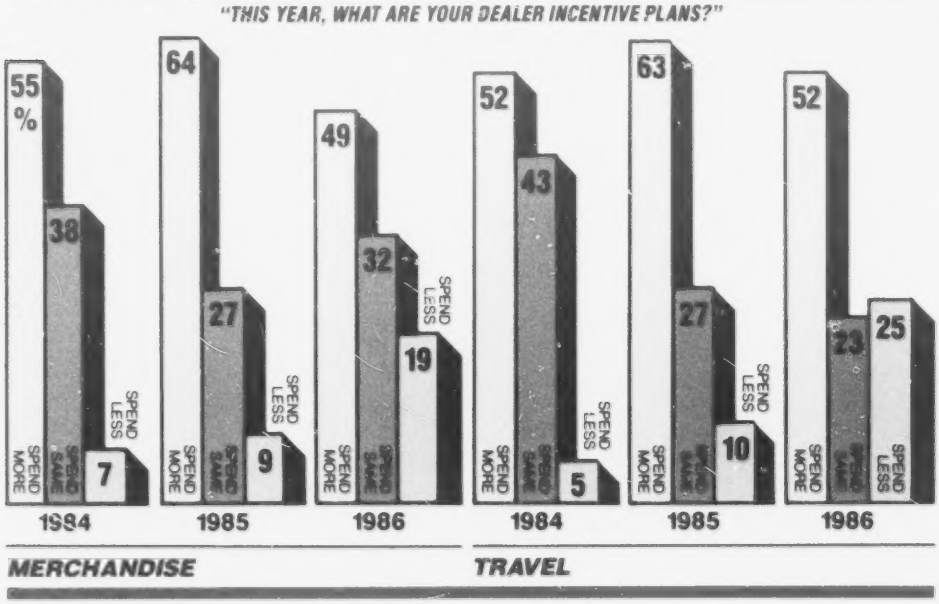
Motivating the middleman doesn't get any easier, but results are satisfying. And as the users of dealer incentives see it now, overall activity is increasing just a little short of the 1985 pace.

Reports of 207 companies in **Incentive Marketing**'s latest survey reveal that:

- Marketers are increasing dealer expenditures this year by 7.9 percent over the same users' 1985 outlays;
- Merchandise programs are rising more than travel, contrary to last year's picture;
- Sales results are tending to hold up well—at an average 18.4 percent increase, compared with 18.7 percent a year ago;
- Award costs are up a bit, particularly for travel, but. . .
- Overall campaign costs remain at a median of 10 percent of incremental sales;
- Dealer participation is a little better than the strong showing a year ago, and
- About half of the respondents are increasing their dealer incentive usage in 1986.

Incentive promotion to retailers, distributors and wholesalers did not increase much in usage for several years, until recovery signals brought an up trend in 1984—with the 12.2 percent growth in expenditures outstrip-

LOOKING AHEAD . . .



WHAT CAN DEALER INCENTIVES DO?

% OF RESPONDENTS REPLYING TO EACH OBJECTIVE

66%	INCREASE OVERALL VOLUME	16%	BUILD DEALER TRAFFIC
35%	INTRODUCE NEW PRODUCT	15%	OFFSET COMPETITION
23%	MOVE FULL LINE OR SLOW ITEMS	13%	BOLSTER SLOW SEASON
22%	IMPROVE MORALE/ GOOD WILL	12%	PREPARE FOR STRONG SEASON
		11%	SUPPORT CONSUMER PROMOTION

ping inflation by a good margin.

In 1985, the growth rate eased to an estimated 8.9 percent. The **IM** total of dealer incentive activity last year was $2.23 billion, about 35 percent of it for travel and the rest for merchandise awards. If the field should equal the predictions of this survey group, 1986 would end with dealer incentive spending above $2.4 billion.

Marketers are increasing dealer expenditures this year by 7.9 percent over 1985 outlays.

The apparel industry led last year's drive, adding 11.5 percent to its dealer incentive spending—due to a big jump in travel usage. Other active groups, all increasing more than 10 percent, were building materials; beer, ale and soft drinks; toiletries and cosmetics; heating and air conditioning; pharmaceuticals; electronics; radio and television; automobiles and trucks; insurance; publishers, printers and broadcasters, and the miscellaneous industries group.

Slow movers last year, with expansion below 7.5 percent, included farm equipment; feed, fertilizer and farm supplies; hardware; housewares and home furnishings; machinery and supplies, and distributors and wholesalers.

Of the 207 firms responding to the February/March survey, 156 supplied budget information on their expenditures in 1985 and projections for 1986. These figures show that the marketers are increasing their purchase of merchandise awards by 9.1 percent and their travel buying by 5.7 percent. Last year's study showed the opposite situation: an 8.2 percent rise in merchandise programs and 13.9 percent more travel usage. Last year's final estimate still showed travel growing faster—at 10.2 percent versus 8.3 percent for merchandise.

About 49 percent of respondents are spending more for merchandise than in 1985, while 52 percent of the travel users have upped their expenditures. On the down side, more—25 percent—have cut back on travel, against 19 percent who are buying less merchandise. The remainder—32 percent of merchandise users and 23 percent of travelers—report their budgets unchanged.

While expenditure trends say much about the state of dealer incentives, the primary focus of the survey is to explore how users are planning, targeting, budgeting, executing and evaluating their promotions and what the exercise is doing for their sales.

Among the multitude of dealer incentive targets, wholesalers and distributors usually lead the way. This year's survey shows them increasing even more in favor—as the target audience for 61 percent of users, compared with 49 percent who wooed them a year ago. The second favorite was commercial or industrial dealers, named by 30 percent. Some 9 percent of the companies aim their campaigns at retail grocers. Drugstores, service stations, variety or department stores, specialty retailers, service contractors and "other" dealer types are selected by small numbers of the users, ranging from 3 to 7 percent. The total is well over 100 percent, since the marketers sell through an average of 1⅓ types.

Merchandise programs are rising more than travel, contrary to last year's picture.

The first measure of incentive success is usually an increase in sales volume, so it is not surprising that the number-one objective of a trade promotion is often to "increase overall volume." That is

If the field should equal the predictions of this survey group, 1985 would end with dealer incentive spending above $2.4 billion.

a goal of 66 percent of the respondents in the dealer incentive survey.

What may be surprising is that the figure is so low. For many years in both sales and dealer incentive studies, **IM** readers chose "overall volume increase" in 75 to 80 percent of cases. Last year it hit a new low of 69 percent and has now dropped another three points.

This appears to be a corollary of increasing sophistication in the use of incentives. More and more users, though still ultimately seeking the bottom line, recognize that more specific aims to fit circumstances can improve the outcome.

How to attain the increased sales is the key concern. A new product could certainly do it—and introducing new items is the second objective, noted by 35 percent.

The third objective for dealer incentives is "Move full line or slow items," at 23 percent. This is followed closely by "Improve morale or good will," in fourth place at 22 percent.

New product introduction is one case when promoting a single item is logical—a course followed by 18 percent of these users. More common, however, is a full-line campaign, favored by 35 percent. But the most prevalent practice is to put the incentive push behind a few selected items; that is the preference of 43 percent of the surveyed users.

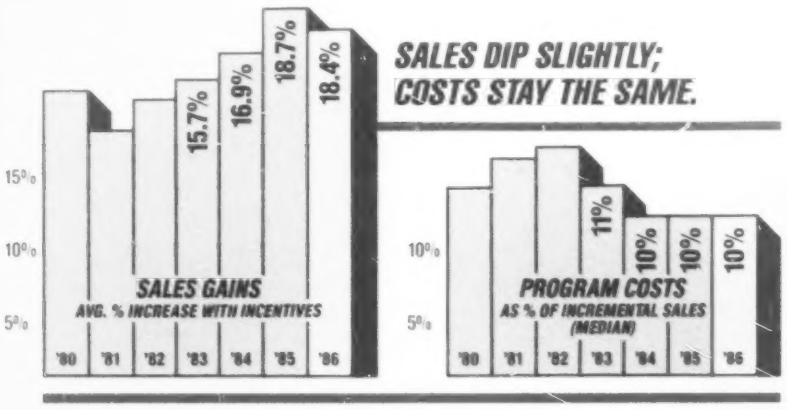
The objectives and the product emphasis naturally influence decisions on frequency and timing of promotions. The median experience of users of merchandise programs is two per year; for travel users, one per year, and for those with combination merchandise and travel promotions, three per year.

September is the leading month for launching incentive promotions, chosen by 29 percent, with second-ranked January at 24 percent. March and April are the break dates for 21 and 18 percent, respectively; February, June, July and October are favored by 15 or 16 percent each, and the remaining months see from 9 to 13 percent of these executives opening campaigns.

The users in the latest survey achieved good sales results with their most recent dealer incentive promotions but did not quite reach their own optimistic targets, on the average. They told **IM** they usually set a sales goal averaging 19.6 percent; their actual performance comes to 18.4 percent. But averages can be deceptive. When we look at the median in each case, their goal is 12 percent, and the actual result is 15 percent.

The 18.4 percent virtually matches the result of 18.7 percent in the 1985 survey, and the median is exactly the same, at 15 percent. Looking at this year's executives' own experience a year ago, however, shows they have improved their record. They indicated an average sales gain of 17.1 percent in their 1985 promotions, up from 16.2 percent the year before. By either measure, their own history or the field's overall results, the picture is one of successful effort.

Sales effectiveness must reflect trade participation, and here the record is quite healthy. Many executives favor a rule of thumb that

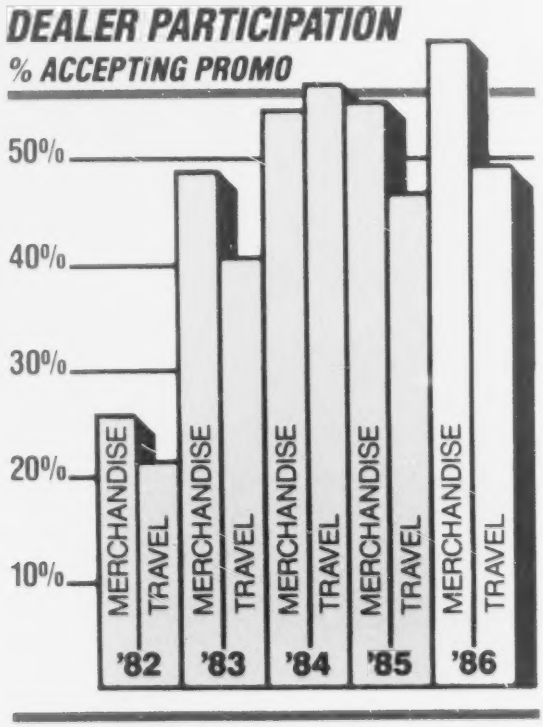


The apparel industry led last year's drive, adding 11.5 percent to its dealer spending—due to a big jump in travel usage.

says 50 percent of eligible dealers (or salespeople) should earn awards. By such a standard, these marketers have done well in recent programs, with an average of 57 percent winners in merchandise programs and 49 percent in travel campaigns. And the median experience in both cases is higher—60 and 50 percent, respectively. This participation rate represents an improvement over that shown in last year's survey, with 55 percent merchandise and 47 percent travel qualifiers and medians at 60 percent and 45 percent.

Given increased sales and strong trade participation, can we assume a truly successful operation? The answer depends, of course, on how you do your arithmetic, and users differ on it. But the simplest evaluation hinges on how much of the sales gain you had to give back to run the program: What did it cost as a percentage of the incremental sales? For three consecutive years now, the typical case has been 10 percent—following four straight years with costs ranging from a median of 11 percent to as much as 14 percent of the incremental sales.

And most users clearly agree that when they can buy a new sales dollar for a dime, it's a pretty good deal.



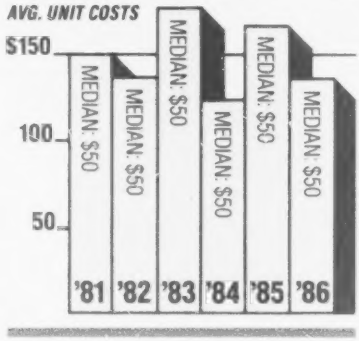
But results like this do not just happen. They come from careful planning and execution at every step of a promotion. Planning usually starts well in advance of the launching of a campaign, although practices vary widely. Reports of planning time in this survey range from two weeks to two years.

Most companies are likely to have occasion to conduct quickie promotions that are put together in days. But we asked the executives in the survey for their practice in advance planning for *major* programs, and their response shows them to be much more deliberate than their 1985 counterparts. Last year's survey found an average planning time of 15 weeks for a merchandise award promotion and 31 weeks for a travel campaign. This year's comparable averages are 33 weeks and 38 weeks—narrowing the gap between merchandise and travel planning, as well as lengthening the time overall.

The planning takes a lot more time than the doing. The average duration of a merchandise promotion—special deal or display premium, for example—is from nine to 11 weeks. For a dealer contest/sweepstakes, it stretches to 14 weeks. The average length of a travel promotion is 28 weeks. The median, or most typical, duration in each case is just a little below the average—eight, 12 and 26 weeks, respectively.

Some users are impatient. For example, an electronics wholesaler complains of the time "getting it off the ground—it seems to take at least two to six weeks, depending on the type of program."

MERCHANDISE AWARDS



He spends about $100,000 for merchandise incentives for industrial dealers, with a three- to four-week planning span. For travel programs with a $200,000 or larger investment, he increases the planning to about 26 weeks. He claims a high percentage sales gain, although his dealer participation is very low—30 percent for merchandise and only 10 percent in travel campaigns.

A food manufacturer who gets excellent participation from retail and wholesale grocers, and usually experiences good sales results, devotes only 12 weeks to plan a merchandise promotion but allows up to eight months for his $3,000-per-person trips. But, he laments, "generally not enough planning time is spent or not enough lead time between selection of incentives and the actual awarding of them."

Overall campaign costs remain at a median of 10 percent of incremental sales.

H. S. Smith, manager, lawn and garden, of Deutz-Allis Corporation, Milwaukee, says he spends only 12 weeks planning an annual travel program, but, with a 12-month selling period, he has the full year to fine-tune many details. He runs a group trip for farm equipment dealers, and about 20 percent usually qualify.

His biggest problem is one at the heart of every incentive program: "Setting objectives and quotas that are effective in motivating the largest number of dealers without making it too easy."

Another side of the same question is "estimating results in advance to justify promotion," as described by Donald E. Mereen, director of marketing, Telex Communications Inc., Minneapolis.

He offers merchandise and travel incentives to dealers in Telex audio products and is satisfied with five percent acceptance of merchandise offers and only one percent for travel. This month a group of the dealers will spend five days at Ixtapa, Mexico, and Mereen figures the program will net him a 15 percent volume increase. The trip promotion is 26 weeks in planning and 26 weeks of selling time. Each trip (per person) takes $25,000 in purchases of Telex products, and the cost in incremental sales is a high 30 percent.

Telex promotes its trip strongly through the company sales force, in literature with the products, at trade shows and by direct mail. Color printed pieces include a series of picture postcards as teasers throughout the campaign period.

Many executives find the planning and preparation of promotional materials the most taxing part of putting the incentive program together. Says an oil company executive who runs 18 premium promotions a year for service stations, distributors and jobbers: "Time consumed from idea to concept to in-house art and printing" is the greatest problem. "Our promotional literature is all done with company personnel and owned equipment. Scheduling my job is a problem."

September is the leading month for launching promotions, chosen by 29 percent.

That company spends about 10 percent of its total incentive budget for the promotional support—and that is well below the average. In fact, executives in the latest survey are bigger promotional spenders than in most past studies. A year ago, the average outlay for promotional support was 19 percent of total campaign budget, with the actual incentive cost taking the other 81 percent. Among this year's respondents, the average is 24 percent for promotional support.

The user's own sales force is the most common vehicle for promoting the program, however—favored by 68 percent. Direct mail is used by 43 percent of the firms, and dealer sales meetings are held by 29 percent. Other avenues of promotion are literature with product (24 per-

cent), trade shows (22 percent), wholesalers or brokers (14 percent) and trade advertising (9 percent).

The importance of the sales force as a means of spreading the word makes it clear that salespeople must be motivated to follow up and stimulate trade support. A New Jersey machinery manufacturing executive emphasizes the importance of "sales force cooperation" and says that his major problem sometimes is a "lack of enthusiasm and earnestness on the part of reps as to follow-through on programs in force at a given time. Customer response is good to excellent, results as predicted."

He runs promotions aimed at industrial dealers and service contractors and gets heavier participation (75 percent) in travel campaigns than with merchandise (25 percent). Sales results are reported in large numbers, and the cost in relation to incremental sales is very low. The company also has merchandise and travel incentive programs for salespeople.

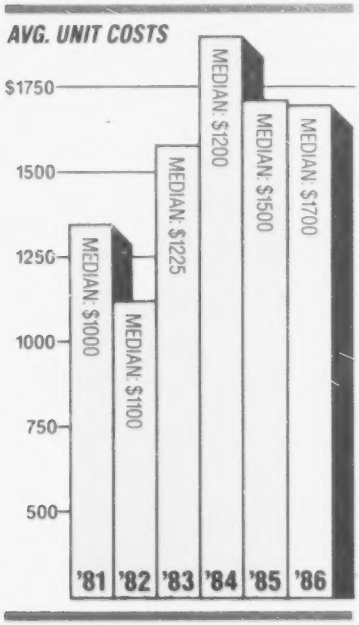
What are users spending for their incentive awards to dealers? The survey finds that, while the average cost of merchandise has dropped from $162 last year to $129, the median remains the same, at $50. The reverse is true in the case of unit travel costs, where the average has barely moved—from $1,748 last year down to $1,745—but the median has risen from $1,500 to $1,700. But when considered on a per-person basis, the median trip expenditure remains at $1,000.

The final decision on spending that money for the incentive merchandise or travel is, in the majority of cases, a top-management responsibility. We asked the users where the last word rests among four categories of executives, and they responded this way:

53%—President, CEO, executive vice president, general manager
27%—Director of sales or marketing
9%—Director of advertising or sales promotion
6%—Product manager or merchandising manager

The boss may make the final choice, but it takes many people within most organizations to reach that stage. The decision points are many. Alan D. Ginos, marketing specialist at Caterpillar Industrial Inc., Mentor, Ohio, summed up key problem spots: "Trying to tie to any incremental business achieved; focusing appropriate parties' attention during planning stage; making competitions meaningful to all participants, not just the top; keeping enthusiasm up throughout program; getting enough money budgeted to do it right." ■

TRAVEL AWARDS



Types of Award

What to offer and where to get the awards are obvious essentials of incentive programs. There are no right answers, only the right ones for each user in terms of his objective, audience, product and many other factors. But here is a consensus of the choices made by this year's respondents:

What types of awards do you most often use as dealer incentives? (% of total respondents)
41% Single premium or few related items
24% Merchandise from incentive firm's catalog
19% Own merchandise catalog or selection
25% Individual travel awards
21% Group trips

Type of merchandise considered most effective:
51% Home or family items
36% Personal items
13% Business-use items

How merchandise premiums are delivered:
62% Shipped separately
25% Delivered by sales force
7% Packed with product

Type of supplier generally used:
Merchandise awards
40% Wholesaler or premium jobber
34% Direct from manufacturer
27% Full-service incentive agency
25% Manufacturers' rep

Travel awards
36% Make own arrangements
29% Full-service incentive agency
19% Travel carrier or hotel
14% Travel wholesaler